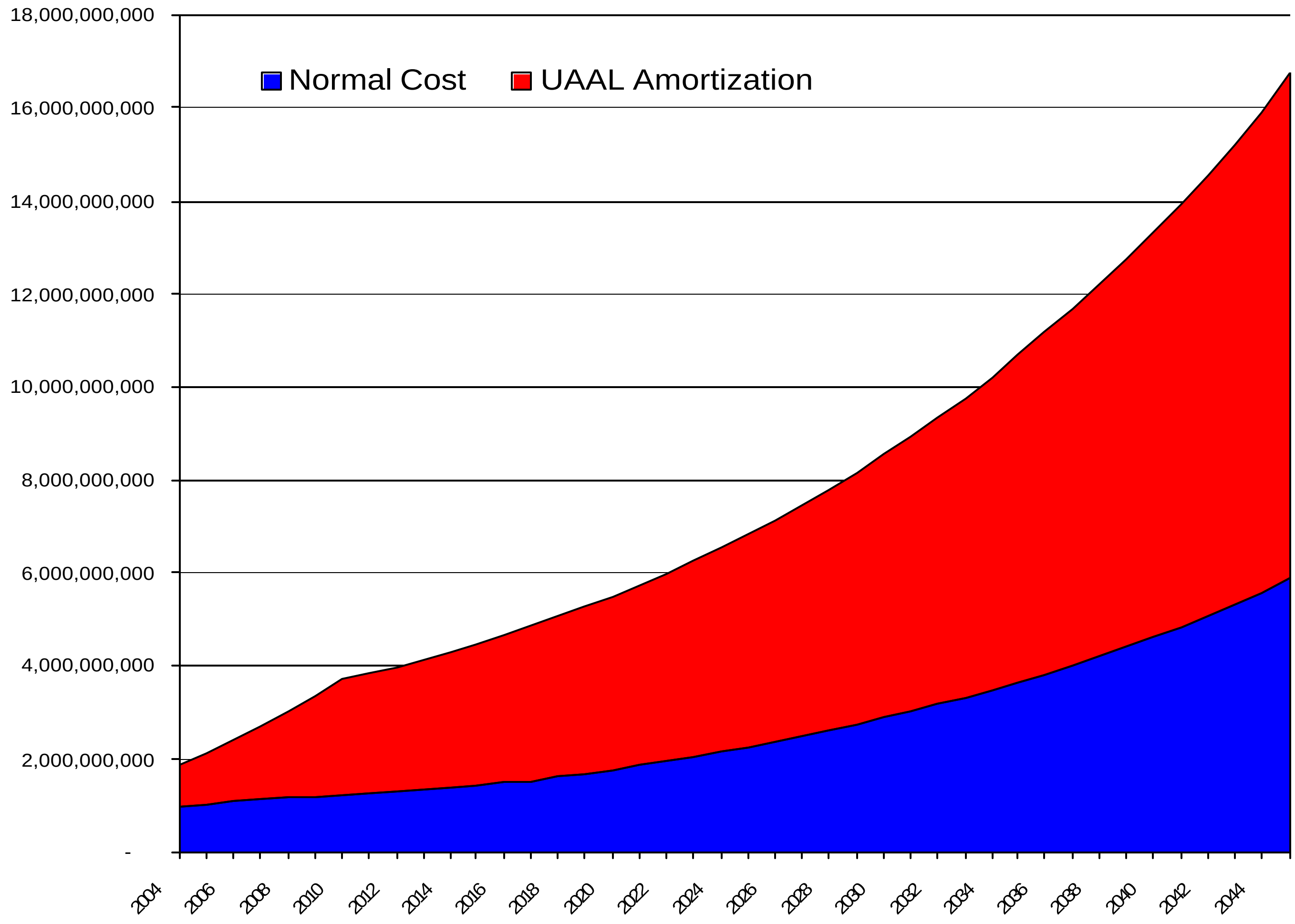
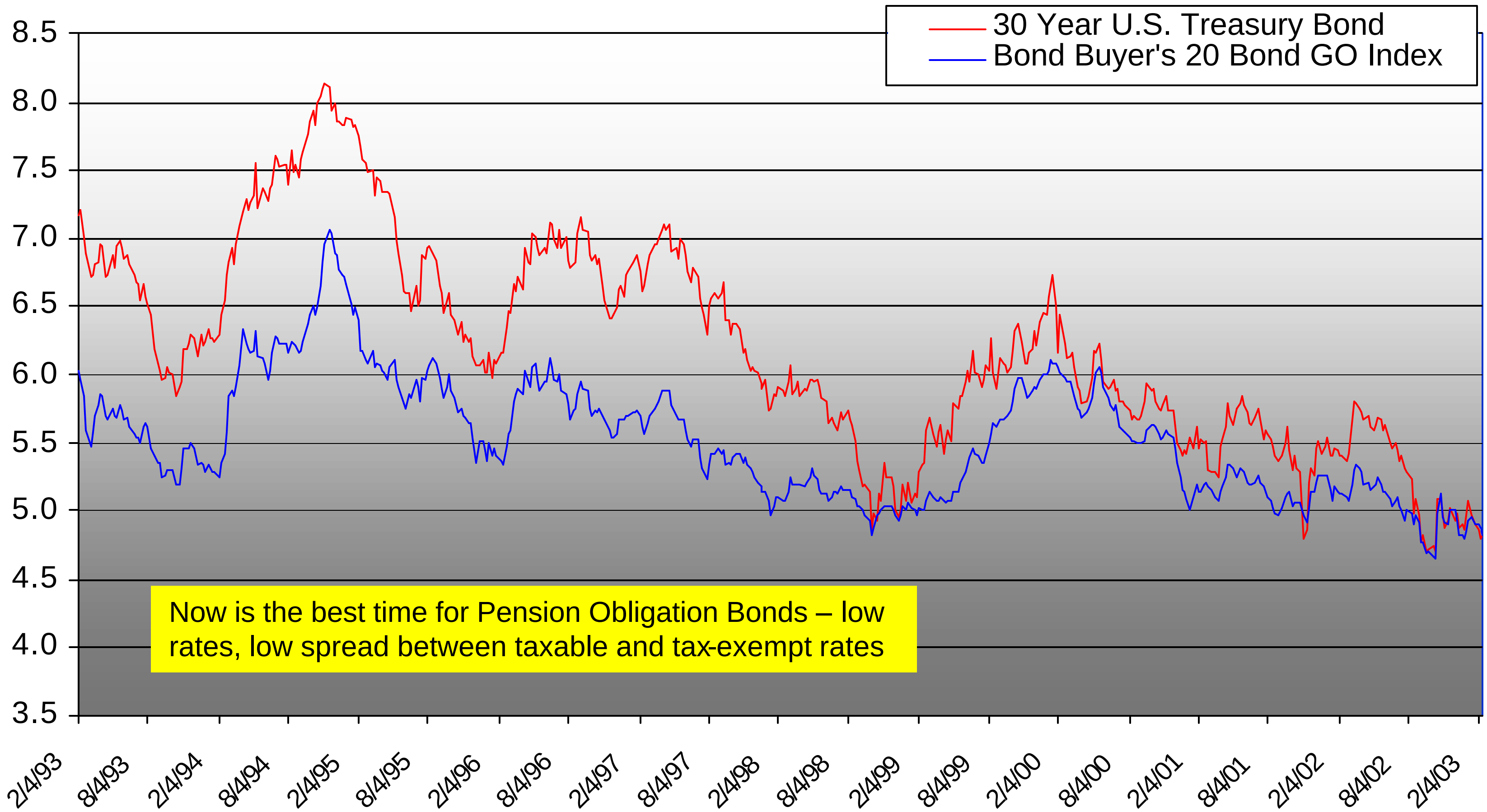
Normal Cost and Unfunded Actuarial Accrued Liability (UAAL) Contributions through 2045



This is a $35 billion, 45-year, 8 – 8.5% loan from five state retirements to the State of Illinois

Taxable and Tax exempt rates

As of 2/14/2003



The Bond Buyer 20-Bond Index consists of 20 general obligation bonds maturing in 20 years with an average rating equivalent to Moody's Aa2 and S&P AA-minus. The index is published every Friday by the Bond Buyer, the daily trade paper for the municipal bond industry.

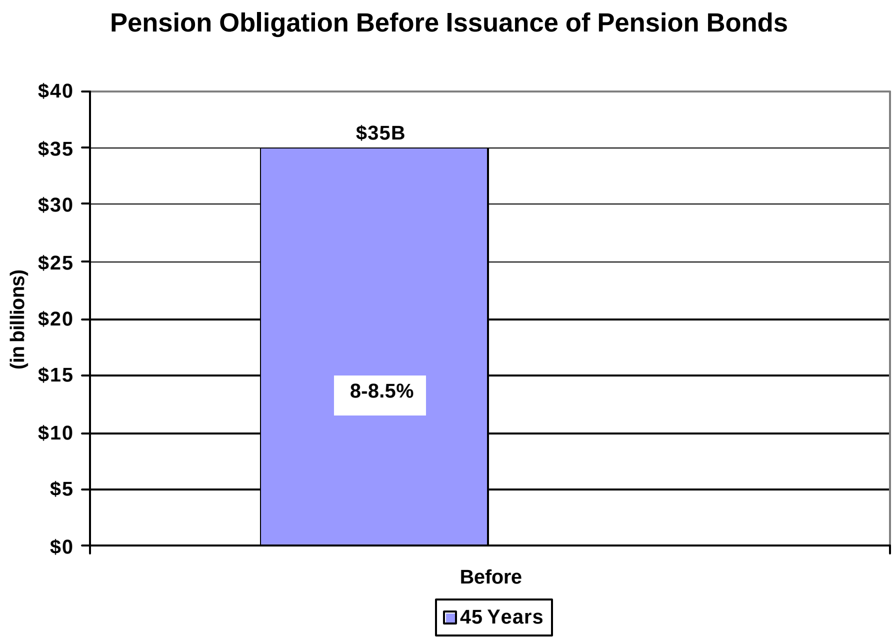
The 30 Year Treasury consists of the most current yields on 30-year U.S. Treasury Bonds.

Pension Obligation Strategy

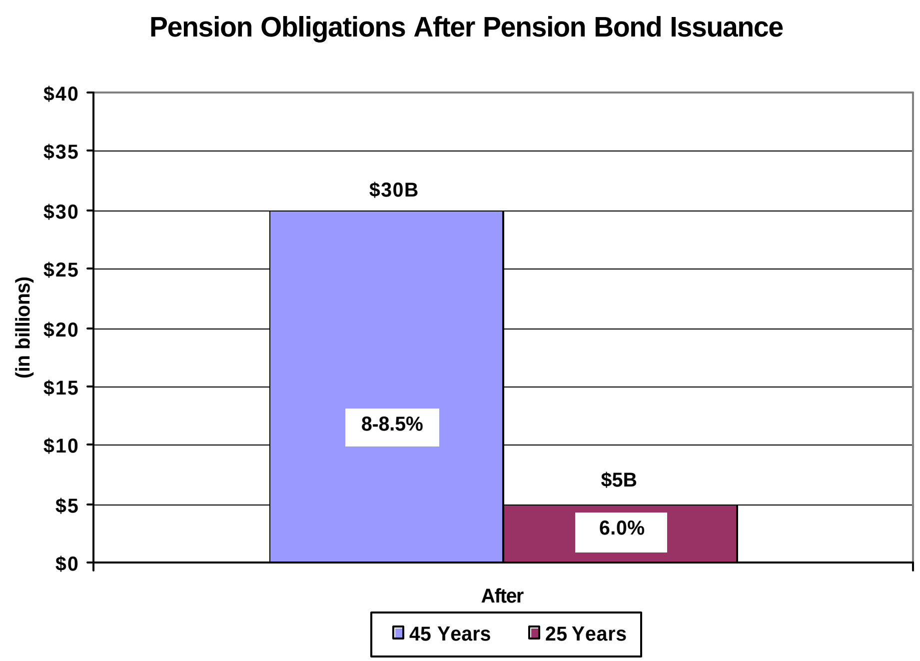
- $35 billion unfunded liability
  - Pension costs will increase by $1 billion per year by the end of 2007
  - The State currently has a $35 billion dollar, 45-year, 8 - 8 ½ % loan from the retirement systems
  - A unique time in the bond market will allow the state to use pension bonds to refinance a portion of this existing loan at lower interest rates—therefore achieving significant economic savings. This will not increase the state's existing debt.
- Pair pension bond strategy with real plan to address liability
  - Pension Obligation Bond issue to fund liability
  - Annual taxable interest cost of approximately 6%
- Generate real savings
  - Average cost of current pension funding = 8-8.5%
    - Actuarial rate has been 8-8.5% for the past 15 years
  - Real cost of pension bonds = 6% (or less), depending on structure
  - Savings of 10-20%, depending on structure

Pension Obligation Before & After Example: $5 Billion Pension Obligation Bonds

BEFORE



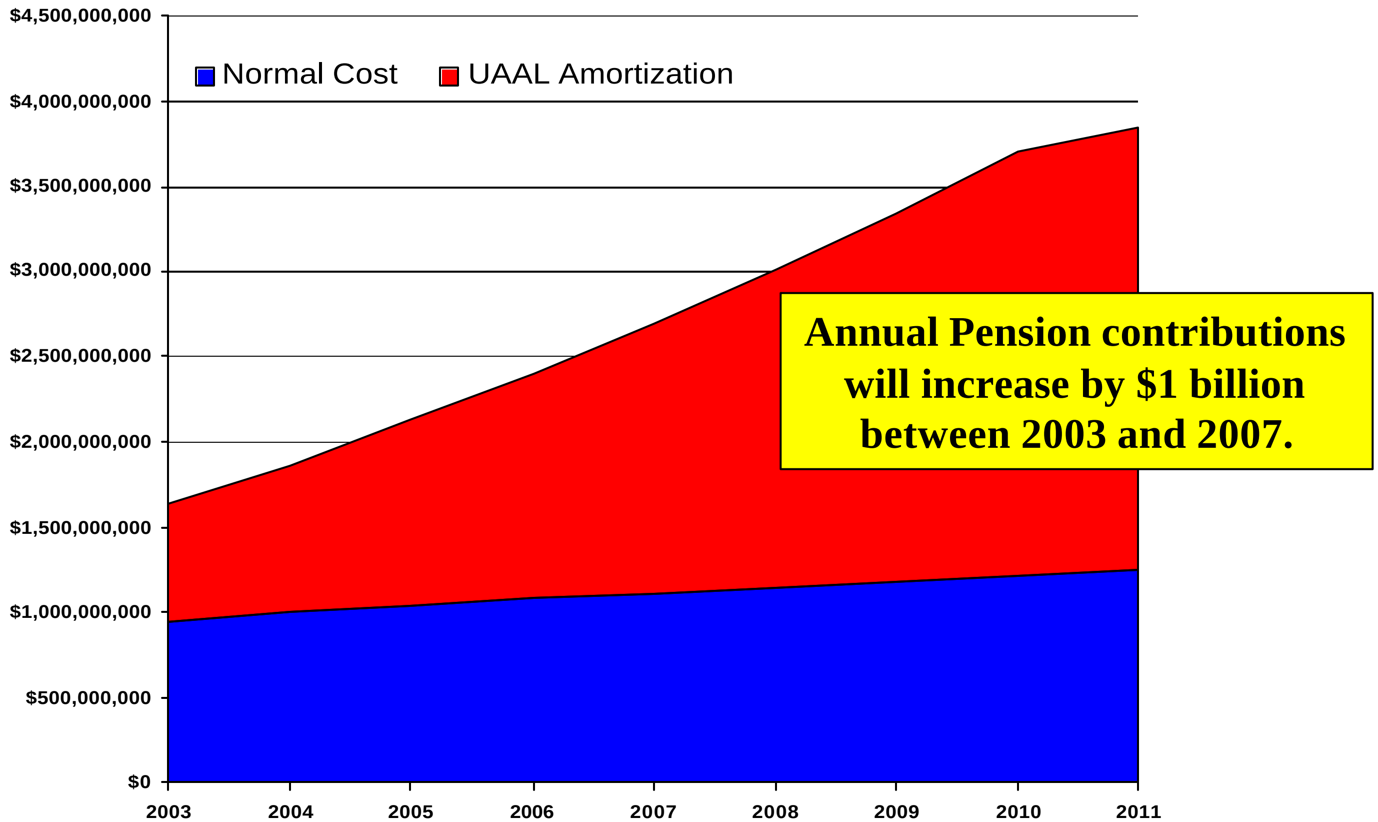
AFTER



$35 Billion = $30 Billion + $5 Billion

<u>NO NEW DEBT!</u>

Legislation Requires Escalating Payments from 1995 - 2011



- State is obligated by the constitution to pay benefits.
- State is obligated by law to make catch-up payments.

Similar to Refinancing a Mortgage

For a $100,000 30-year mortgage:

- At 8.5% the current monthly payment would be $749/month
- At 6.0% the current monthly payment would be $600/month

10-20% savings achieved by lowering effective funding cost

Sound Business Decision

- $35 billion unfunded liability
  - Pension costs will increase by $1 billion per year by the end of 2007
  - The State currently has a $35 billion dollar, 45-year, 8 - 8 ½ % loan from the retirement systems
  - A unique time in the bond market will allow the state to use pension bonds to refinance a portion of this existing loan at lower interest rates—therefore achieving significant economic savings. This will not increase the state's existing debt.
- Unfunded liability is not going to go away
- Any corporation would do this immediately – genuine savings
- Long term interest rates are at a 40 year low
- Premium for taxable vs. tax exempt debt is lower than ever
- Stock market has already corrected significantly
- The State should execute this financing strategy even in the absence of a budget deficit